

Message Text

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PAGE 01 OTTAWA 00914 282358Z

71

ACTION EUR-25

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C O N F I D E N T I A L OTTAWA 0914

POUCHED INFO ALL CONSULATES IN CANADA

E.O. 11652: GDS

TAGS: ENRG CA

SUBJECT: ENERGY: FEDERAL/PROVINCIAL AGREEMENT ON NEW OIL PRICE
POLICY FOR CANADA

BEGIN UNCLASSIFIED

1. SUMMARY. FEDERAL AND PROVINCIAL PREMIERS HAVE
AGREED ON NEW \$6.50 CRUDE OIL PRICE IN CANADA, SUBSIDIES
TO EASTERN PROVINCES TO OFFSET HIGHER PRICE OF OFF-
SHORE OIL, AND CONTINUATION OF TAX OR CHARGE ON
CRUDE EXPORTS TO US. PRIME MINISTER TRUDEAU AND
ENERGY MINISTER MACDONALD HELD PRESS CONFERENCE
MARCH 27 TO ANNOUNCE AGREEMENT AND ANSWER QUESTIONS.
MEDIA REPORT MIXED REACTIONS TO AGREEMENT RANGING
FROM SOMEWHAT GRUDGING ACCEPTANCE BY PRODUCING
PROVINCES TO ENTHUSIASM IN EAST. END SUMMARY.

2. PM TRUDEAU ANNOUNCED FEDERAL/PROVINCIAL
AGREEMENT MARCH 27 ON NEW ONE-PRICE OIL POLICY FOR
CANADA. AGREEMENT FOLLOWED SERIES OF INTENSIVE
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PAGE 02 OTTAWA 00914 282358Z

MEETINGS BETWEEN PM AND ALBERTA PREMIER LOUGHEED ON

MARCH 25, SASKATCHEWAN PREMIER BLAKENEY ON MARCH 26, AND ALL PROVINCIAL PREMIERS AS A GROUP ON MARCH 27. TRUDEAU, OBVIOUSLY PLEASED WITH HAVING BROUGHT DISPARATE INTERESTS TO CONSENSUS, SAID "IT COULDN'T BE A BETTER DAY FOR FEDERALISM."

3. AGREEMENT PROVIDES FOR CRUDE PRICE OF \$6.50 PER BARREL AT WELL-HEAD IN ALBERTA, PLUS TRANSPORTATION TO OTHER DESTINATION IN CANADA. NEW PRICE, WHICH COMPARES WITH PRESENT PRICE OF ABOUT \$4 PER BARREL, WOULD APPLY FOR 12 MONTHS FROM APRIL 1, 1974, AND POSSIBLY FOR 15 MONTHS. TRUDEAU SAID AT PRESS CONFERENCE THAT HE WOULD INFORM COMMONS OF EXACT LENGTH OF AGREEMENT ON MARCH 28 AFTER FURTHER COMMUNICATION WITH PREMIERS, SOME OF WHOM WANTED TO CONSULT CABINETS ABOUT CONSEQUENCES OF ONE PERIOD OR OTHER.

4. AGREEMENT ALSO PROVIDES FOR HEAVY SUBSIDY TO FIVE EASTERN PROVINCES IN ORDER TO OFFSET HIGHER COST OF OFF-SHORE OIL AND ENSURE SINGLE PRICE (EXCLUSIVE OF TRANSPORTATION) FOR WHOLE COUNTRY. TRUDEAU ESTIMATED TOTAL SUBSIDY AT ON ORDER OF \$1.3 BILLION. ACTUAL AMOUNT WILL DEPEND ON WHAT HAPPENS TO OFF-SHORE OIL PRICES.

5. EXPORT TAX -- HENCE FORTH TO BE CALLED "EXPORT CHARGE" ACCORDING TO ENERGY MINISTER MACDONALD -- WILL CONTINUE AT RATE EQUIVALENT TO DIFFERENCE BETWEEN CANADIAN PRICE AND CHICAGO "WORLD" PRICE AS DETERMINED BY NEB. MACDONALD SAID EXPORT CHARGE FOR APRIL WOULD BE \$4.20 BASED ON \$10.70 CHICAGO PRICE. FEDERAL GOVERNMENT WILL KEEP ENTIRE PROCEEDS OF EXPORT CHARGES AND WILL USE PROCEEDS FOR SUBSIDIES TO EASTERN PROVINCES AND EQUALIZATION PAYMENTS. TRUDEAU SAID RECEIPTS SHOULD COVER EXPENDITURES WITH SOME MONEY LEFT OVER.

6. RE EQUALIZATION PAYMENTS TO "HAVE-NOT" PROVINCES, TRUDEAU SAID PRODUCING PROVINCES HAVE INDICATED THAT THEY WANT TO PUT SUBSTANTIAL FRACTION OF NEW REVENUES CONFIDENTIAL

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PAGE 03 OTTAWA 00914 282358Z

INTO CAPITAL POOL RATHER THAN INTO GENERAL REVENUES. REVENUES GOING TO CAPITAL POOL WOULD NOT BE SUBJECT TO EQUALIZATION, GENERAL REVENUES WOULD. TRUDEAU SAID "WILD FIGURE" FOR NEW EQUALIZATION PAYMENTS WOULD BE AT LEAST \$100 MILLION.

7. GOC HAS AGREED NOT TO INTRODUCE NATIONAL MARKETING LEGISLATION AT THIS TIME (I.E. LEGISLATION THAT WOULD

AUTHORIZE GOC TO BUY FROM SOURCE AND SELL TO CONSUMERS;
LEGISLATION FOR NATIONAL PETROLEUM COMPANY, ANNOUNCED
EARLIER WILL GO FORWARD) BUT DISCUSSIONS ON THIS WILL
CONTINUE.

8. TRUDEAU GAVE NO DETAILS OF DISCUSSIONS ON SUCH
CONCERNS OF WESTERN PROVINCES AS TRANSPORTATION,
ESTABLISHMENT OF PETROCHEMICAL INDUSTRIES, ETC., BUT
SAID THESE WOULD BE SUBJECT OF CONTINUING DISCUSSIONS
AND THAT PRESENT AGREEMENT BASED ON ASSUMPTION OF GOOD
FAITH IN PROCEEDING TOWARD TYPE OF COMMITMENTS MADE
AT LAST YEAR'S WESTERN ECONOMIC OPPORTUNITIES
CONFERENCE IN CALGARY.

9. MACDONALD SAID NEW PRICE POLICY WOULD PROBABLY
MEAN INCREASE AT WHOLESALE LEVEL OF SEVEN CENTS
PER GALLON IN HEATING OIL AND GASOLINE WEST OF
OTTAWA VALLEY AND NO CHANGE EAST OF OTTAWA VALLEY.
HE SUGGESTED, HOWEVER, THAT FIRMS MAY SEEK INCREASE
TO CENT OR SO TO COVER OTHER HIGHER COSTS.

10. MEDIA REPORT MIXED REACTIONS TO AGREEMENT.
ALBERTA PREMIER LOUGHEED REPORTEDLY SAID HE ACCEDED TO
PRICE DECISION ONLY AFTER TRUDEAU AGREED NOT TO PROCEED
WITH FEDERAL MARKETING LEGISLATION. SASKATCHEWAN
PREMIER BLAKENEY SAID HE WAS NOT FULLY SATISFIED WITH
PRICE BUT ACCEPTED IT AS "NOT UNREASONABLE" AND IN
LIGHT OF UNSPECIFIED TRADEOFFS ON IRON AND STEEL
AND TRANSPORTATION. EASTERN PREMIERS REPORTEDLY
WERE ENTHUSIASTIC. GLOBE AND MAIL QUOTES NEW
BRUNSWICK PREMIER HATFILED AS SAYING "WE'RE
GETTING A VERY GOOD DEAL." QUEBEC PREMIER BOURASSA,
ACCORDING TO GAZETTE SAID "WE CAN CONGRATULATE OURSELVES
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PAGE 04 OTTAWA 00914 282358Z

ON THE AGREEMENT. IT IS VERY VALUABLE FOR QUEBEC,
VERY ADVANTAGEOUS." NDP LEADER DAVID LEWIS REPORTEDLY
WAS PLEASED WITH AGREEMENT BUT EXPRESSED SOME CONCERN
ABOUT POSSIBLE IMPACT OF HIGHER PRICES ON COST-OF-LIVING.
INDUSTRY SPOKESMAN JOHN POYEN ALSO PLEASED WITH
AGREEMENT BUT, ACCORDING TO CBC REPORT, THOUGHT 12-15 MONTH
PERIOD OF PRICE FREEZE WAS TOO LONG AND WOULD
UNNECESSARILY DELAY ADJUSTMENT TO MARKET PRICE
DETERMINED BY SUPPLY AND DEMAND FACTORS. NO EDITORIAL
COMMENT IN THURSDAY MORNING PAPERS.

11. EMBASSY IS POUCHING TRANSCRIPT OF TRUDEAU-
MACDONALD PRESS CONFERENCE. END UNCLASSIFIED
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12. COMMENT: YESTERDAY WAS NOT ONLY "A BETTER DAY FOR

FEDERALISM" -- IT WAS ALSO A GREAT DAY FOR PIERRE TRUDEAU. HE SUBSTANTIALLY STRENGTHENED HIS POLITICAL POSITION BY AVERTING A FEDERAL/PROVINCIAL CONFRONTATION AND ASSURING CANADA A STABLE OIL PRICE FOR AT LEAST THE NEXT 12 MONTHS. TRUDEAU'S SUCCESSFUL NEGOTIATION WITH THE PROVINCIAL PREMIERS SHOULD IMPROVE HIS POSITION VIS-A-VIS THE TIMING OF ANY NATIONAL ELECTION. ANYONE FORCING HIM INTO AN ELECTION THIS SPRING WOULD FACE A MORE FORMIDABLE FOE. ALONG WITH TRUDEAU, THE POSITION AND STATURE OF ALBERTA PREMIER PETER LOUGHEED WAS ALSO ENHANCED. LOUGHEED COMES OUT OF THE OTTAWA MEETINGS NOT ONLY WITH HIS PROVINCIAL LEADERSHIP REINFORCED BUT WITH AN IMPROVED IMAGE AS A POLITICAL FIGURE OF NATIONAL STATURE. END CONFIDENTIAL
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